

UNITED STATES NATIONAL OFFICE
OFFICE OF SPECIAL ASSISTANT FOR SECURITY TRADE CONTROLS

15 February 1954

MEMORANDUM

TO: Mr. John A. Loftus

FROM: Elizabeth A. Burton

SUBJECT: Report of my Week of Consultation in Washington:
January 11th - 15th, 1954

SCHEDULE

Monday: MDAC/W Staff Meeting

Tuesday: MDAC/EDAC Meeting

Wednesday: a) MDAC/W, Diversion Control Network (DCN)
b) DEPARTMENT OF COMMERCE

Thursday: a) Pentagon Intelligence Working Group (IWG)
b) CENTRAL INTELLIGENCE AGENCY

Friday: MDAC/W, General

DOS & DOC declassification & release instructions on file

Cleared with Col. Brown - USRO/ST

Note: Attachments with orig. only.

- 2 -

PART I - INTRODUCTION

Directly upon my arrival, Mr. Hansen introduced me to Admiral Delany's Special Assistant for enforcement problems, Mr. Spencer M. Beresford, who had set up for me a comprehensive program, emphasizing diversion problems, that enabled us to put the week to the best advantage. My arrival in the Washington office fortunately coincided with the first operational meetings of the Diversion Control Network (DCN) which has been in a formative stage since last fall; so that many problems common to the Washington and Paris offices were ironed out on the spot. Together with Mr. Beresford, I attended several meetings and group discussions which were primarily concerned with the enforcement program against diversions, and when I was on several occasions called upon to brief those present on the activities of the Paris office, I explained the functions of USRO/ST accentuating the activities that were of paramount interest to the particular gathering. The various groups were all familiar with the CQ/COCOM/CHINCOM structure but were interested in hearing the details of USRO/ST enforcement activities and in one particular instance (IMG) in the functions of the Economic Defense Regional Panel. The CIA and DCN meetings were devoted entirely to discussions of case histories, diversion trends and patterns, and general housekeeping problems.

A detailed report of the meetings and discussions I attended is given in the following:

PART II - GENERAL MDAC MEETINGS

1. MDAC Staff Meetings - January 11th

During the MDAC Staff Meeting, the present status of USRO/ST was touched upon briefly when Mr. Hansen reported that while the internal structure of the Paris office was still undetermined, it was expected that in answer to Mr. Loftus's recent letter a joint State/MDAC reply with respect to the reorganization of ST on divisional or more lateral lines, would be cleared within a week or ten days.

The selection of Mr. Donald Robert Bergstrom as Operations Officer for the Paris office was indicated when Mr. Beresford reported that Mr. Bergstrom was awaiting security clearance. I later inquired about the appointment since I thought Paris was unaware that anyone had been selected and pointed out that Col. Brown was hoping to get someone with legal experience. Mr. Beresford replied that while Mr. Bergstrom had had no legal background, he was well qualified

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- 3 -

in Political Science and Economics and had specialized on the Soviet Bloc. He also speaks Russian, having attended the Army language school. Mr. Bergstrom is expected to report in Paris around March 1st.

2. MDAG - ED/EC Meeting - January 12th

References - see Tab A attached.

1. US-Canadian Bilateral Discussions, January 13-15, Agenda and Meeting Schedules.
11. ED/EC D-51, January 14, Fact Sheets for Briefing Purposes (Congress).
111. ED/EC M-52, January 13, Minutes of Meeting of January 12.

The entire meeting was devoted to Mr. Hansen's review of the Agenda for the Canadian bilateral discussions and the assignment of responsibility for items in the Fact Sheets for Briefing Purposes (For copies of the reports, see Tab A/1 & 11).

During the meeting Col. Moffatt announced that he would be leaving his present Economic Defense post in the Department of Defense around March 1st. He did not know who would succeed him.

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-4-

PART III - ENFORCEMENT PROGRAM AGAINST DIVERSIONS

1. Liaison for Enforcement Controls

The agencies primarily charged with responsibility for enforcement controls are MDAC/FCA, CIA, and Department of State.

Diversion problems in MDAC/W are handled by Mr. Oliver S. Anderson, Mr. Jerry Knoll, Mr. Beresford and Mr. David Tilson, his deputy. Unfortunately, these officers are obliged to cope with all Economic Defense matters and cannot devote their time entirely to diversion cases. There are several analysts of the CIA Research and Reports Staff who cope with Economic Defense problems. I met with several members of this group, and, roughly speaking, there are three commodity analysts (copper, aluminum, and other metals) and three geographical analysts (Sterling Area, Mediterranean and North European areas), and one or two others who handled general reports. This Staff is by no means devoted to Economic Defense alone, and it is generally realized that the personnel is not adequate to comply with the volume of reports requested of them. In his letter of January 5th to Mr. Guthe (see Tab B/iv), Admiral Delany takes up this point and suggests CIA consider the assignment or reallocation of personnel to support MDAC recommendations. The Department of State diversion group of four is headed up by Mr. Douglas W. Coster. His staff consists of Mr. Mass who handles general problems, Mr. Burnett who takes care of Far East matters, and Mr. Strong who covers copper.

These three Washington agencies have assigned Diversion Control Officers to the newly formed Diversion Control Network as follows:

MDAC/FCA	-	Mr. Beresford, Mr. Tilson
CIA	-	[REDACTED]
Dept. of State	-	Mr. Douglas W. Coster

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2. Diversion Control Network (DCN) - January 12th

References - See Tab B attached

1. MDAC/GP - 1a, Sept 17, 1953, Proposal for Integrated Control of Preventive Action Against Diversions.
- ii. MDAC/W, List of Diversion Control Officers. Jan. 13, 1954
- iii. MDAC/W, Diversion Cases Inventory. Jan. 13, 1954
- iv. Correspondence Delany/Guthe re Magnitude of Diversions

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- 2-
- v. MDAC/W, Diversiion Control Flow Chart, Jan. 13, 1954
 - vi. MDAC/W, Minutes of Diversiion Control Network Meeting held Jan. 13, 1954.
 - vii. Draft Directive, Feb. 3, 1954, re Lateral Dissemination of Intelligence Information of Economic Defense Elements with- in USRO/ST

On Wednesday I attended the third meeting of the newly organized Diversiion Control Network (DCN) which is a pan-agency working group that meets regularly by the week and more often when necessary. Mr. Beresford, the Chairman, has been the organizer and coordinator of this group whereby it is hoped that more efficient procedures can be established both in Washington and in the field for coordinating intelligence and action relative to the enforcement of Economic Defense controls. A full report on the scope and directives of the DCN is set forth in MDAC/OR-1a, Mr. Beresford's report of September 17, 1953 entitled Proposal for Integrated Control of Preventive Action Against Diversiion which is attached (See Tab B/1). Diversiion Control Officers have been appointed to the Committee from State, CIA, and MDAC/W with liaison officers from Treasury, Defense and Commerce (names and titles attached, see Tab B/11).

It was generally agreed that one of the most difficult problems to be encountered in diversiion control administration involved the initiation of action and assignment of responsibility for consequent developments between Washington and Paris, as well as for the eventual analysis and summary of the case histories. As a case in point, Mr. Beresford pointed out that two cables [redacted] (Washington POLTO A-428, December 23, and Washington POLTO A-431, December 29) had been sent out by Col. Brown from Paris when Washington had intended to take action, since the basic intelligence reports, [redacted] indicated "No lateral dissemination".

This problem was discussed at some length and it was finally agreed that Paris would assume and maintain action for:

- a. Cases initiated in Paris which were based on regional intelligence submitted to USRO/ST.
- b. Cases where the time element and proximity of USRO/ST to regional posts was a prime factor.

It would be assumed, unless notified by Washington to the contrary, that Paris would retain the responsibility for these cases as well as the subsequent documentation, which would be summarized on a selective basis, either in sections or ex post facto.

-6-

In order to avoid any confusion on this point, it was agreed that USRO/ST would submit a bi-weekly inventory including comments on status of operation, with respect to the diversion cases for which Paris had primary responsibility. I pointed out that time was at a premium and that these reports would necessarily be very brief and probably restricted to titles and references. Mr. Knoll submitted a current Inventory of Diversion Cases (See TAB B/iii).

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[REDACTED] CIA briefed me on the structure of their Research and Reports Staff and the nature of the work their analysts covered. I was particularly interested in determining how often they issued their diversion summaries, such as the nine prepared for Mr. Hansen during the British bilateral discussions in early November. I found that these nine reports constituted an ad hoc job of major undertaking and that the regular receipt of similar reports on a weekly or monthly basis was optimistic indeed! In addition to these summaries, the same CIA Staff had recently completed a study on the Magnitude of Diversions (Copper and Aluminum) which was the result of a series of correspondence between Admiral Delany and Dr. Guthe of CIA based on a request of Mr. Jacques, USRO/ST. For copies of the correspondence see TAB B/iv. CIA promised to release a copy to USRO/ST but it has not yet been received. Mr. Beresford pointed out that the report did not comply with the directives of Admiral Delany's original request since information regarding country participation had not been included. The "magnitude" report was also a major undertaking and the manhours required to complete it should not be underestimated in requesting additional information of this sort from CIA.

The USRO/ST diversion case histories had been enthusiastically received and particular notice given to the useful format. Mr. Hansen asked Mr. Beresford and me to get together a Briefing Book for the Canadian discussions, similar to the one prepared for the British meetings in November. He later reported that the summaries had been most useful in the discussions. I was also able to point out to Mr. Beresford two or three specific Canadian diversion problems, such as the sale of Canadian molybdenum through Associated Metals & Minerals of New York to SALEM of Milan after the Italian company had been blacklisted from receiving U.S. molybdenum by the Department of Commerce; and also the activities of the Vanco over agents, Messrs Spouse and Zins, previously involved in the Gandini/STATON case, who have recently again been operating in Switzerland (Milan despatch 169, November 27, 1953).

25X1A9a In discussing these summaries further, I pointed out that they should be considered a luxury item since USRO/ST was certainly not equipped with the personnel to assume responsibility for extensive reporting on ALL USRO/ST diversion cases, and I could see from having discussed the point with [REDACTED] that CIA was faced with similar conditions. They should rather be written up on a selective basis with an end-use in mind applicable to specific problems scheduled to arise in COCOM or bilateral discussion.

-7-

For instance, Mr. Tilson, Mr. Beresford's deputy, was at the moment undertaking two projects concerned with COMUFGS and PERCLUSIVE BUYING as they related to diversions. Both of these subjects had fortunately been discussed extensively in the USRO/ST Villach Cargo and Polychemia case summaries, respectively, which present excellent examples and background for an examination of these problems. Further in this connection, a request for any case histories relative to the U.K. diversion transactions was requested from Washington through the DCN on February 1st, and it is hoped that any reports forthcoming will prove useful in the Transaction discussions scheduled for the British bilateral meetings in early spring of 1954.

Mr. Beresford had several CIA reports, maps, and diagrams on diversion volume and patterns, but as only one copy of each had been released to MDAC, the Paris office had not received copies. I asked Mr. Beresford to get copies released for USRO/ST and to keep his eye open for subsequent reports that would be of interest to us. For the Canadian bilateral discussions, Mr. Beresford had prepared an interesting Diversion Control Flow Chart which shows the inter-agency organization for the receipt and channeling of intelligence and inter-agency liaison for subsequent action (See Tab B/v).

Finally, Mr. Beresford reported that he had already made arrangements for USRO/ST to receive even more lateral intelligence than previously and he requested that I submit to him a draft directive with respect to the lateral dissemination of intelligence to USRO/ST which would eventually be dispatched as a Department circular to all foreign service posts. This draft was sent to MDAC/W on February 3. (See TAB B/vi)

A copy of the Minutes of this DCN meeting of January 13th is attached. (See TAB B/vii)

3. Central Intelligence Agency (CIA) - January 14th

On Thursday afternoon I met informally with several analysts of the CIA Research and Reports Staff who were directly concerned with diversion problems. Unfortunately the staff must handle many more problems than those dealing with enforcement. The CIA office is a research agency only and therefore had no responsibility for taking action. The group was not interested in hearing about our operation procedures and I spent a great deal of time recounting the specific details of such cases as Gandini/STATAX and the Norwegian aluminum diversions of July/August via Beirut and Antwerp. They were also interested in knowing how much lateral intelligence we were receiving [redacted]. I replied that while we received approximately 30 reports per month, I had no way of estimating what this figure represented of [redacted] information available. I was questioned extensively with respect to diversion trends, patterns, and specific East/West traders and cases; and was considerably gratified to find that the blank spots which have been bethering USRO/ST have also been of concern to this agency which is much better equipped than Paris both as to personnel and available research data.

-6-

A case in point is Max Linker, head of a well-known forging ring, whose address, nationality, and center of operation are unknown, although reports of his agents' activities and forgeries occur weekly. CIA indicated that they were anxious to receive any intelligence from us that would indicate patterns of operation.

Later in the afternoon I accompanied [redacted] and met with the head of the research files section. Their system of operation leaves nothing to be desired! Every despatch and cable received in CIA is filed on a 5 x 8 card, reproduced by an IBM process, and cross-filed by individuals, firms, commodities and countries. Provided the analysts and time are available, there is no East/West trade intelligence that cannot be developed from this system if it has been reported in the first place. The head of the CIA research section has made several reports on outstanding East/West firms and operators and said she hoped to release more in the future. She is also restricted by lack of time. I described the USHQ/OT card system, which makes no attempt to duplicate CIA's all-inclusive operation, but is rather a quick, resourceful, and invaluable means of keeping tab on individuals and firms(only) operating within the European theater. 25X1A9a

4. Department of Commerce - January 13th

References - See Tab G attached.

i. Bibliography of References, Jan. 20, 1954, "Plan for Stopping Diversions through Antwerp by means of Advance Manifest Information from Department of Commerce."

ii. Antwerp despatch 202, November 20, 1953.

I met with several members of Commerce on Wednesday afternoon; Mr. Richard, Mr. Lindsay and Mr. Clarence S. Gunther who are concerned with the diversion of U.S. goods only; and with Mr. Walter C. Clyde, Jr. of the Bureau of Foreign Commerce (BFC) - formerly the Office of International Trade (OIT). After explaining the functions of our respective offices, we discussed only those problems which were common to all present.

Mr. Lindsay had made a trip in October to Antwerp and at that time had arranged to forward advance manifests of shipments due to arrive in the port. It was felt both by the Antwerp Consulate and Commerce that the system had been extremely successful as a preventive measure, since the constant inquiries on the part of the Consulate kept Antwerp forwarders aware that the U.S. was alert to any attempts at diversion. Mr. Lindsay had been sending two to three manifests per week and he estimated that approximately three officers were required to operate this project successfully. Both Rotterdam and Trieste are interested in the scheme and Mr. Lindsay was anxious to know if, in our opinion, Trieste was equipped to handle the work. I assured him that Trieste was well into an Economic Defense program but that unfortunately an Economic Defense conference planned for the middle of October had been cancelled.

-9-

due to the Trieste crisis, and I could not tell him how many people were actually handling Economic Defense problems in this Mission. I reported on this conversation to Col. Brown who will take the matter up on his next trip to Rome.

References to despatches and cables on the subject are attached as TAB C, but unfortunately only one report (Antwerp despatch 202, November 20) is available in USRO/ST.

Mr. Lindsay briefed me on the Norddeutsche/Schilling case involving the Seth-Smith ring in the U.K. A full report on this subject is in our Norddeutsche file. Mr. Lindsay added that the case is being investigated by British intelligence who, in turn, provide information to the Department of Commerce.

I was informed that Commerce maintains an investigating office in Washington and New York only. All other inquiries are handled by the Department of State abroad, or, within the U.S., by the Treasury Department.

Mr. Lindsay pointed out that Commerce can often provide important information regarding principals involved in diversions, but that the name of the vessel transporting the goods is essential for determining the name of the consignee.

I discussed the BFC Check List and particularly the question of distribution of this List to USRO/ST. I was assured we would henceforth receive our copies directly and without delay. I also agreed to supply Commerce with reports on individual firms of known East/West traders that were obvious omissions from the BFC List. I had intended returning to Commerce to go over the BFC offices with Mr. Clyde but time prevented my taking advantage of his kind invitation.

5. The Intelligence Working Group - January 14th

References - See TAB D attached.

- i. IWG/A-57, Agenda for 57th Meeting, January 13th
- ii. IWG/M-57, Minutes of 57th Meeting, January 14th
- iii. Memorandum of February 10th to Eric Gulashin, Executive Secretary, USRO re Soviet Trends Committee of NATO

Together with Mr. Berensford, I attended this pan-agency working group meeting as an observer, but was asked to brief the members regarding the activities of USRO/ST. The group, a subsidiary of the NSC, knew about CG/COCOM/GRINCOM but were very interested in the activities of the Economic Defense Fund. I outlined the membership of the panel and gave examples

-10-

of problems that had been discussed, pointing out that we would be glad to submit any questions for discussions that the IAC was interested in having considered. I also discussed briefly the kind of intelligence we received and stressed the importance of receiving reports in time to take preventive action against diversions, since the greater part of the reports coming in to USRO/SI were ~~after-the-fact~~.

In connection with Item 4 on the Agenda, "The Problem of Developing Intelligence on Changing Soviet Trade and Economic Policy", I found that none of the members of the IAC was aware of the existence of the Soviet Trends Committee in the NATO Paris organization. Since I was not too familiar with the activities or Terms of Reference of this Committee, I offered to establish a liaison between the IAC and the Soviet Trends Committee Secretariat here in Paris so that reports made by the Paris group would be available to interested offices in Washington (See TAB D/111).

During the meeting, Mr. Hamberg expressed his interest in Mr. Pracht's bi-weekly East/West Trade Analyses and said that they were the only reports of their kind available in Washington and had proved invaluable.

-11-

PART IV - CONCLUSIONS

The week was extremely elucidating and gave me a comprehensive idea of how the agencies in Washington that are directly concerned with diversion activities specifically operate, their limitations, their primary interests, and the functioning of the inter-agency liaison. Without exception there is more work than can be handled by the personnel available. I was particularly gratified to realize that USRO/ST, with even more limited staff than any single group in Washington, has been able to keep well abreast of diversion activities that have increased so enormously since the middle of last summer.

Time prevented my visiting the Department of Commerce a second time, the Department of State and the Department of Defense. Colonel T. Brown of the Department of Defense asked me on Thursday afternoon after the INO meeting to return to the Pentagon to meet their newly appointed officer who would be handling diversion cases, but although I made a special effort, I could not get over there in the one day left to me.

Before I left Washington on Friday, I reported extensively to Admiral Delany on the activities of my week, and asked for any last minute instructions he might wish to have transmitted to USRO/ST. He mentioned again the Joint State/NSA/C letter that would be despatched in the immediate future and said that he had discussed the matter with Mr. Hughes as well. Admiral Delany pointed out that the entire diversion problem had become increasingly important and that public attention and concern as well as that of Congress were more and more manifest.

All of the staff members of NSAC/W and the other Economic Defense officers I met and talked with were generous with their time, cooperative, and vitally interested in the program in general. They were keenly interested in the Paris office and invariably most sympathetic with our problems. I felt they were impressed with the amount of work that USRO/ST had been able to accomplish in the enforcement program and I sincerely think that I was able to clarify many of the housekeeping problems that have clouded the Washington/Paris operation with respect to diversion activities, enabling the groups to get a better idea of the limitations under which we work; and as I, in turn, became aware of their operational difficulties, I think that the inter-Washington-agency and Paris/Washington operations in diversion control cannot help but be improved by these informal and extremely helpful discussions.